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Poland:
Economy decoupled from the eurozone crisis

The general deterioration of conditions in the euro area (even in Germany) in the second half of 2011 has already affected the performance and prospects in most new member states. But so far Poland has kept its growth momentum. Growth in 2012 is likely to be satisfactory (though of course lower than in 2011) even if the euro area stagnates. The domestic economy is in no need for any meaningful deleveraging while fiscal and monetary policies will quite certainly not chase any overambitious goals. As in 2009 the Polish economy will benefit from its size, versatility and relative closedness. But the exchange rate volatility will continue to be a source of surprises which can be either pleasant or unpleasant.

Growth has continued in the fourth quarter of 2011. Provisional estimates suggest that the performance of the economy has even improved, at least with respect to foreign trade and gross fixed investment. The estimates suggest that Poland’s GDP rose by 4.3% in the whole of 2011. The contribution to the yearly GDP growth rate of rising private consumption was 1.8 percentage points (p.p.), followed by the contributions of gross fixed capital formation (1.7 p.p.), and of foreign trade and an increase in stocks (0.5 and 0.4 p.p. respectively). The contribution of falling government consumption was negative (-0.1 p.p.). Gross value added rose strongly in construction (11.8%) and industry (6.3%), while trailing behind in market services (3.2%) and contracting in non-market services.

The enterprise sector (non-financial firms active outside agriculture, employing over 49 persons) has performed quite well: its net profits earned during the first three quarters of 2011 reached PLN 77.4 billion (roughly equivalent to EUR 19 billion) – 15% more than the year previous. Overall the financial standing of the corporate sector is very good. Profits of exporting firms rose close to 25%, no doubt partly reflecting the relative weakness of the Polish currency. Exporting firms’ financial standing continues to be even extraordinarily good: the marked slowdown of growth of the major importing partners has not yet affected Polish exporters. Profitability indicators of the whole enterprise sector have improved, liquidity indicators are strong. 73% of all firms (generating 85% of the whole sector’s sales) made net profits in the first three quarters of the year. After about two years of pre-emptive accumulation of idle cash balances, the enterprise sector’s attitudes seem to have changed as concerns expansion of productive capacities. The sector's outlays for fixed investment (PLN 62.2 billion) rose by more than 12% in real terms during the first three quarters of 2011. (In the same period of 2010 those outlays had fallen by over 11%.) The change in investment propensity is especially visible in manufacturing where investment outlays have increased over 10% (after having fallen over 25% in the same period of 2010).

The financial standing of the banking system remains quite strong. The Capital Adequacy Ratio stood at 13% at the end of November 2011. The share of 'endangered' credits in the total stock of credits (7.5% at the end of September 2011) has fallen (from 7.9% the year previous). During the first 11 months of 2011 the banking sector made net profit close to PLN 14.5 billion (38% up on the same period of 2010). While the net interest income rose only by 13.3%, the bulk of profit registered comes from strongly reduced provisions, demonstrating the sector's strength. The high profits earned in 2011 are likely to increase banks' own capital base, thereby further strengthening their resilience.

Expansion of lending has been relatively moderate: within the first 11 months of 2011 the stock of loans rose by 15% nominally (or merely about 9% if adjusted for the exchange-rate effects). The sluggishness of lending reflects the entrenched risk awareness on both sides of the market for loans, as well as the fact that the corporate sector does not depend too much on bank credit. Additionally, the series of hikes in the policy interest rates executed by the inflation-averse National Bank of Poland (in January, April, May and June 2011) was transmitted into higher interbank and retail interest rates. Within the year both the deposit and lending rates have risen by 0.7-1 percentage points. (Recently the average interest rate on loans to firms has stood at 6.6%, the average interest on PLN-denominated housing credit at 7.2%.) Lending to firms has been rising at roughly the same speed as to households. Of course the composition of lending has been changing. Investment loans to firms (especially the small and medium-sized) have recently started to rise much faster than the loans financing current activities. Credit to the household sector (which has started to lag behind the credit to firms) is dominated by loans financing housing investment/acquisition. Housing loans (of which some 20% are still denominated in foreign currencies, primarily Swiss franc) are rising most dynamically, while the stock of consumer credit is actually contracting.

Despite the overall good standing of the banking system, some residual risks do exist. At the end of September 2011 banks' foreign-exchange assets accounted for 27.9% of their balance sheets while their liabilities for only 22.1%. This (continuing) misalignment reflects a broader structural problem. The non-financial sector's deposits in the domestic banking have grown fairly sluggishly. Such deposits account for merely 62% of all banks' liabilities, with as much as 23% of deposits and credits coming from the financial sector (out of which 16.4% from non-resident financial institutions – primarily the foreign 'mother-banks'). An abrupt withdrawal of a sizeable portion of these resources would certainly restrict the ability of domestic banks to fund the domestic economy. But the likelihood of such a development does not seem very high because of high profits to be earned on banking activities in Poland. More likely, the foreign banking groups facing difficulties outside Poland may need to sell their local 'daughters' to others – also to the 'native' Polish banks or other financial groups.

The budget law for 2012 stipulates some restrictions on public sector spending (especially as concerns spending by local governments and by the public health-service system) and higher taxation (mainly in the form of the 2 percentage points hike in social security contribution falling on employers). In effect the fiscal deficit is to fall from about 4.2% of the GDP in 2011 to less than 3% in 2012. This ambitious goal, probably announced to reassure the 'financial markets' (and the European Commission), may be hard to achieve. For example, under the impact of widely articulated public discontent over the cuts in subsidies to pharmaceuticals, the government has already (in January 2012) promised to 'reconsider' the issue. It is quite likely that actual public spending will eventually be somewhat higher than planned. However, even if the fiscal deficit/GDP ratio still exceeds the 4% mark in 2012, public debt (less than about 53.5% of the GDP) is unlikely to be a major problem. The demand for Polish 10-year treasury bonds continues to be fairly strong and yields on them are still quite moderate. This is unlikely to change very much even if things worsen further in the euro area.

The PLN/EUR exchange rate hovered below 4 for about a year (August 2010 to July 2011). Then a strong depreciation tendency set in, peaking in the first week of January 2012 with a rate of 4.52. It is quite generally believed that the depreciation tendency had much to do with the moods prevailing in the international capital/exchange rate markets in the second half of 2011. In particular, the Hungarian sovereign-debt crisis is assumed to have impacted depreciation in a number of the EU's new member states. To prevent such a contagion-based depreciation from developing into a panic of its own, the National Bank of Poland intervened several times on the forex market. Eventually, the depreciation tendency suddenly stopped for no apparent reason and a fast appreciation started. Within four weeks starting on 7 January 2012 the PLN/EUR rate strengthened from 4.52 to 4.18. This is good news to the National Bank (as the 'imported inflation' is now likely to go down), the Finance Ministry (the burden of foreign public debt will be eased) and households whose debt is denominated in foreign currencies. However, it is less of good news to the sectors producing tradable goods and services. Further strong appreciation of the zloty would surely be detrimental to Poland's growth in 2012. But such an appreciation would seem to require a definite improvement of things in the euro area: then the general confidence in the zloty (and other marginal currencies) may strengthen. Assuming the crisis in the euro area will drag on some time, the appreciation of the zloty may come to an end before it does too much harm to the productive sector.

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Table PL

Poland: Selected Economic Indicators

	2006	2007	2008	2009	2010	2011 [1)]	2012	2013 Forecast	2014
Population, th pers., average [2)]	38141	38121	38126	38152	38184	38230	38217	38204	38185
Gross domestic product, PLN bn, nom.	1060.0	1176.7	1275.4	1343.4	1415.4	1530	1620	1730	1840
annual change in % (real)	6.2	6.8	5.2	1.6	4.0	4.3	3	4.1	4.3
GDP/capita (EUR at exchange rate)	7100	8200	9500	8100	9300	9700	.	.	.
GDP/capita (EUR at PPP)	12300	13600	14100	14300	15300	16200	.	.	.
Consumption of households, PLN bn, nom.	652.8	701.6	773.8	809.7	857.0	920	.	.	.
annual change in % (real)	5.0	4.9	5.7	2.1	3.2	3.1	2.2	4	4.5
Gross fixed capital form., PLN bn, nom.	208.3	253.7	283.9	284.6	281.2	330	.	.	.
annual change in % (real)	14.9	17.5	9.7	-1.3	-0.1	8.7	3.5	6	7
Gross industrial production (sales) [3)]									
annual change in % (real)	12.1	9.3	2.6	-3.7	11.1	6.9	6	6	6
Gross agricultural production (EAA)									
annual change in % (real)	-1.1	5.2	1.3	4.7	-11.4	-6.6	.	.	.
Construction industry [3)]									
annual change in % (real)	15.9	16.4	9.8	4.7	3.9	15.5	.	.	.
Employed persons - LFS, th, average	14593.6	15240.5	15799.8	15868.0	15960.5	16120	16200	16440	16690
annual change in %	3.4	4.4	3.7	0.4	0.6	1	0.5	1.5	1.5
Unemployed persons - LFS, th, average	2344.3	1618.8	1210.7	1411.1	1699.3	1870	.	.	.
Unemployment rate - LFS, in %, average	13.9	9.6	7.1	8.2	9.6	10	9	8.5	8
Reg. unemployment rate, in %, end of period	14.8	11.4	9.5	11.9	12.3	12.5	12	11	10
Average gross monthly wages, PLN	2475.9	2672.6	2942.2	3101.7	3225.0	3386	3520	3680	3870
annual change in % (real, gross)	4.0	5.5	5.9	2.0	1.5	1.1	1.5	2	3
Consumer prices (HICP), % p.a.	1.3	2.6	4.2	4.0	2.7	3.9	2.5	2.5	2
Producer prices in industry, % p.a.	1.8	2.0	2.4	3.9	2.3	7.5	4	3	2.5
General governm.budget, EU-def., % GDP									
Revenues	40.2	40.3	39.5	37.2	37.5	40.3	41	41.0	41
Expenditures	43.9	42.2	43.2	44.5	45.4	44.5	44.5	44.0	44
Net lending (+) / net borrowing (-)	-3.6	-1.9	-3.7	-7.3	-7.8	-4.2	-3.5	-3.1	-3
Public debt, EU-def., in % of GDP	47.7	45.0	47.1	50.9	54.9	53.7	54	54	54
Central bank policy rate, % p.a., end of period [4)]	4.0	5.0	5.0	3.5	3.5	4.5	4.5	4.3	4.0
Current account, EUR mn [5)]	-10421	-19253	-23818	-12153	-16486	-15220	-15500	-18000	-18700
Current account in % of GDP [5)]	-3.8	-6.2	-6.6	-3.9	-4.7	-4.1	-4.0	-4.3	-4.2
Exports of goods, BOP, EUR mn [5)]	93382	105883	120953	101715	124998	137981	148300	159400	172200
annual growth rate in %	20.4	13.4	14.2	-15.9	22.9	10.4	7.5	7.5	8
Imports of goods, BOP, EUR mn [5)]	99208	119707	141896	107140	133893	148284	159400	172200	186000
annual growth rate in %	23.9	20.7	18.5	-24.5	25.0	10.7	7.5	8	8
Exports of services, BOP, EUR mn [5)]	16349	21018	24207	20717	24718	26304	27600	29800	32200
annual growth rate in %	24.8	28.6	15.2	-14.4	19.3	6.4	5	8	8
Imports of services, BOP, EUR mn [5)]	15768	17583	20729	17294	22381	21449	22500	24800	26800
annual growth rate in %	25.9	11.5	17.9	-16.6	29.4	-4.2	5	10	8
FDI inflow, EUR mn [5)]	15737	17241	10135	9339	6699	9929	.	.	.
FDI outflow, EUR mn [5)]	7137	4018	3071	3331	4149	4092	.	.	.
Gross reserves of NB excl. gold, EUR mn	35237	42675	42299	52734	66253	71691	.	.	.
Gross external debt, EUR mn	128968	158624	173736	194396	236018	240000	.	.	.
Gross external debt in % of GDP	47.4	51.0	47.8	62.6	66.6	64.6	.	.	.
Average exchange rate PLN/EUR	3.8959	3.7837	3.5121	4.3276	3.9947	4.1206	4.15	4.15	4.15
Purchasing power parity PLN/EUR	2.2646	2.2699	2.3746	2.4703	2.4247	2.4730	.	.	.

Note: Gross industrial production, construction output and producer prices refer to NACE Rev. 2. Gross agricultural production refers to Economic Accounts for Agriculture (EAA).

1) Preliminary and wiiw estimates. - 2) From 2011 according to census March 2011. - 3) Enterprises with 10 and more employees. - 4) Reference rate (7-day open market operation rate). - 5) Including Special Purpose Entities (SPEs).

Source: wiiw Database incorporating Eurostat and national statistics. Forecasts by wiiw.